

**PROGRAM TO STRENGTHEN HIGHWAY ADMINISTRATION
AND LOCAL ROAD REHABILITATION**

(PN-0117)

EXECUTIVE SUMMARY

BORROWER: Republic of Panama

EXECUTING AGENCY: Ministry of Public Works (MOP) through the program executing unit.

AMOUNT AND SOURCE OF FINANCING:

IDB:	US\$156 million (OC)
Local counterpart:	US\$ 67 million
Total:	US\$223 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	20 years
Disbursement period:	3 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%
Currency:	Single Currency Facility U.S. dollars

OBJECTIVES: The objectives of the program are to: (i) strengthen MOP's capacity to formulate policies, and to plan, administer, and supervise the execution of the works under contract; ii) rehabilitate and improve rural roads, including the replacement and repair of bridges, and improvement of rainwater drainage in several provinces of the country; and (iii) expand the coverage of routine system maintenance.

DESCRIPTION:

Subprogram I: Technical assistance to supplement MOP's institutional strengthening efforts. Includes activities to: (i) increase capacity to manage and operate the highway sector; (ii) strengthen capacity for establishing priorities and formulating strategies; (iii) strengthen capacity for contract supervision; and (iv) increase the efficiency of resources allocated to maintenance of the system.

Subprogram II: Works to rehabilitate 1,260 km of secondary and local roads, replace 30 bridges and perform drainage works at seven specific sites. Roads were selected for the program on the basis of broad geographical distribution, the location of agricultural production centers, and communities with market access needs, predominantly composed of persons native to the service areas of these

projects.

**ENVIRONMENTAL
REVIEW:**

The provinces of Darién, San Blas, and Bocas del Toro, where the indigenous communities reside and where there are large forest reserves, are not included in the program. The impact on indigenous communities is nil, and the presence of indigenous groups or ethnic communities has not been detected in the project areas. Population resettlement will not be necessary.

The works are not expected to alter any site that has not already been developed in the past. The regions selected for road rehabilitation are comprised of farmland that in most cases has been served by roads for more than 20 years.

The relatively limited environmental impairment expected during the construction phase is as follows:

(i) air quality, dust, and emissions from the burning of fossil fuels; (ii) soil erosion in very limited areas; (iii) highly localized pollution from asphalt and hydrocarbons; and (iv) no direct impact on flora and fauna in the forest areas. Various options to mitigate these effects have been provided for. The cost of rehabilitation and improvement takes into account the financing necessary to take environmental mitigation measures according to the estimates of the environmental management plans (PAMAs).

The environment and social impact report (ESIR) was approved by the CESI on May 29, 1998. The environmental impact assessments (EIAs), the PAMAs for works whose bidding process has already begun, and the ESIR for the Program have been made available to the public for review at the regional offices of the Instituto Nacional de los Recursos Naturales Renovables [Natural Institute of Renewable Natural Resources] (INRENARE).

BENEFITS:

Reduce transportation costs and integrate the economy and the rural population with the rest of the country by providing better access to basic services and markets for inputs and products. Execution of the program will reduce the execution period of the works and improve the availability and reliability of the highway system.

RISKS:

The main risks of the program pertain to the possibility that the resources allocated to the highway sector may encounter competing claims for public sector spending, and in particular for the social sectors. In view of the nature of the program

and its importance for the rural sector, this is a minor risk, and the government has allocated resources from the development trust fund to make financing for the highway sector viable.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The proposed operation is consistent with the strategies of the country and the Bank. Strengthening and modernization of the State's institutional capacity in the highway sector, and the rehabilitation and development of rural roads will help to promote economic activity in rural areas, reduce the tax burden, and promote more efficient sector spending. The operation complements Bank-supported programs for economic openness and integration, privatization, macroeconomic and financial strengthening, and reform of the country's incentive structure and microeconomic framework.

**PROCUREMENT OF
WORKS, GOODS, AND
CONSULTING
SERVICES:**

The applicable Bank policies will apply to the procurement of goods, works, and consulting services to be financed with program resources. When resources from the Bank financing are used, the threshold amounts beyond which procurements under this program must be conducted by international competitive bidding are: US\$350,000 for goods; US\$4 million for works; and US\$200,000 for consulting services.

To accelerate the execution of works included in the first Program contract (see "Special Contractual Conditions, II of this Summary), the Government has requested the Bank's non-objection to the continuation of administrative support from the United Nations Development Program (UNDP), which has been provided in connection with contracting for the first group of works under the Program (paragraph 3.23). In the case of the second contract (see "Special Contractual Conditions, II of this Summary), when the amounts concerned are less than those specified in the first paragraph of this section, and in the case of procedural requirements not included in the Bank's rules (Annexes B and C of the contract for this loan), simplified procedures under Panamanian legislation ? which are compatible with Bank procedures ? will be applied.

**EXCEPTIONS TO
BANK POLICY:**

See information on works procurement above.

It is proposed that the least-cost selection method be used in recruiting consulting services. Under this method, a "minimum technically acceptable" level is established for evaluation of the technical proposals (paragraph 3.25).

**POVERTY AND SOCIAL
POLICY CRITERIA:**

In accordance with the Eighth Replenishment document (AB-1704), it has been determined that the proposed program does not have the characteristics of a poverty-targeted program ? neither geographically nor in terms of its beneficiaries ? and is not specifically targeted to the participation of women.

Nonetheless, based on available information collected for the analysis of the project benefits, low-income groups are expected to receive approximately 15% of the economic benefits resulting from road rehabilitation under the Program. It is also estimated that 10% to 15% of the total cost of the works could be performed under contract by small and medium-sized enterprises, especially for the surveying, hauling, and highway maintenance activities (paragraph 2.8).

**SPECIAL
CONTRACTUAL
CONDITIONS:**

I. Establishment of the project executing unit (paragraph 3.2) will be a condition precedent to the first disbursement of the Bank financing. In addition, the conditions necessary for execution, monitoring (paragraph 3.3 and 3.27, and 3.28), and evaluation (paragraph 3.29) of the projects will be set forth in the loan contract.

II. Taking into account the goals of Panama's macroeconomic policy, and in particular those related to the country's foreign debt, the contractual arrangements for the financing referred to in this document will consist, at the request of the Government of Panama, of two separate contracts: one contract for up to US\$85 million to be signed this year, and a second contract to be signed in the first quarter of 1999 for up to US\$70 million (see paragraphs 3.4 and 3.5).